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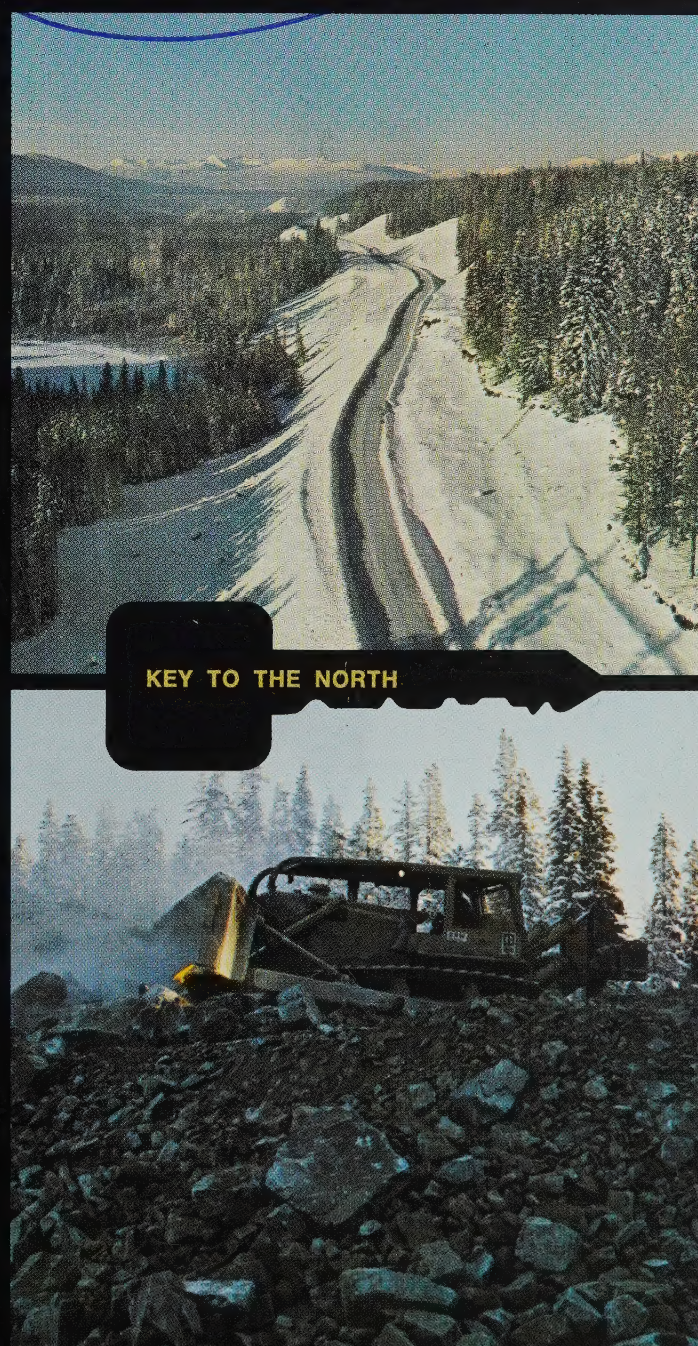
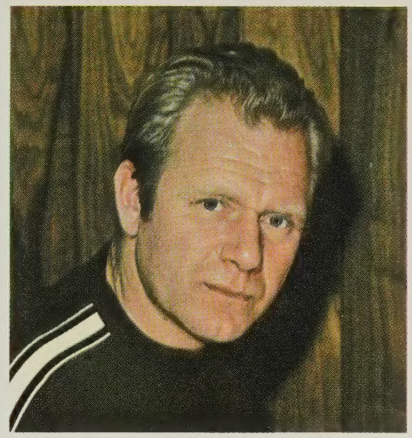
Keen Industries Limited
Annual Report 1972



D. J. FREEZE
Vice-President

R. J. KEEN
President



GEORGE BAYER
Vice-President and
Gen. Construction Supt.

HUGH BULLEN
Vice-President and
General Manager

HOWARD SCHAUFELE
Treasurer

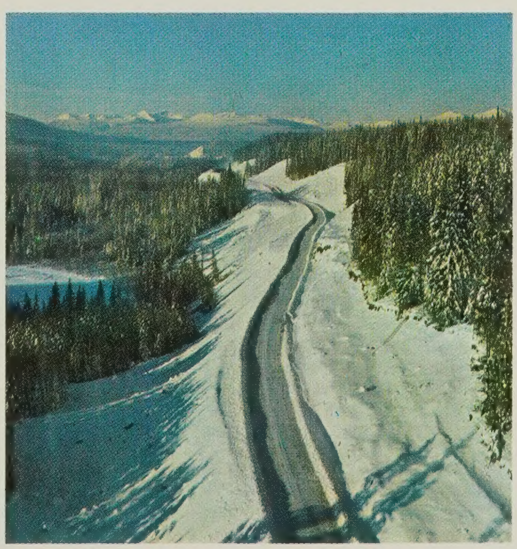
D. C. HETLAND
Secretary

Key to the North

Keen Industries Limited is an integrated service organization that provides construction, transportation and oilfield services to the resources industry, governments and private developers. The company lives up to its motto 'Key to the North'.

As the company grows and develops it is placing more emphasis on transportation — on land, by water and by air — particularly with regard to servicing the Canadian north.

Keen Industries is comprised of nine interlocking, operating subsidiaries. These include aviation, trucking and marine transport companies with licenses covering many areas of Northern British Columbia, Alberta, the Northwest Territories and the Yukon.



The other operations are heavy construction, drilling, oilwell services, pipeline construction and rentals, with offices in Edmonton and Calgary, Alberta; Fort Nelson and Dawson Creek, B.C. and Fort Simpson, N.W.T.

With assets in excess of $17 million, Keen Industries is listed on the Toronto and Montreal Stock Exchanges and its shares trade on the Over-The-Counter market in the United States.

Keen Industries

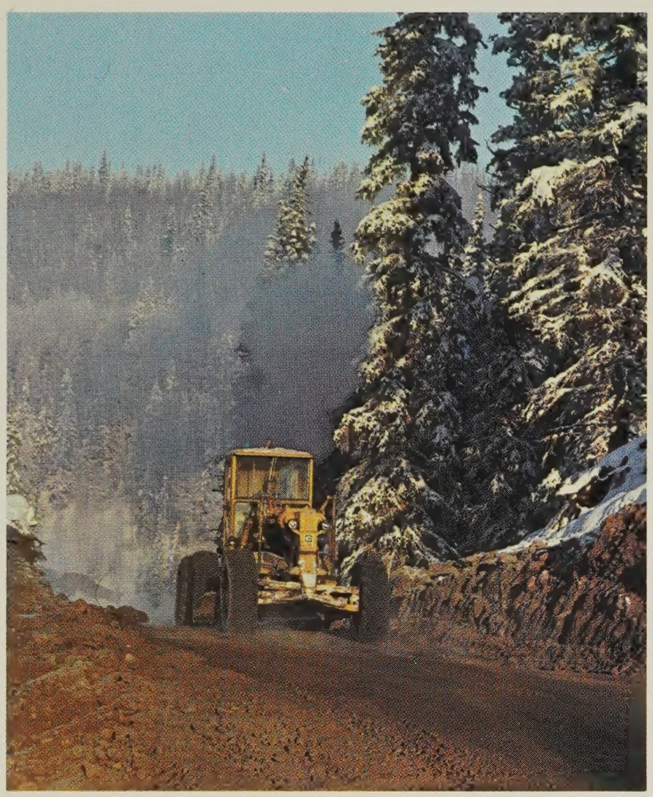
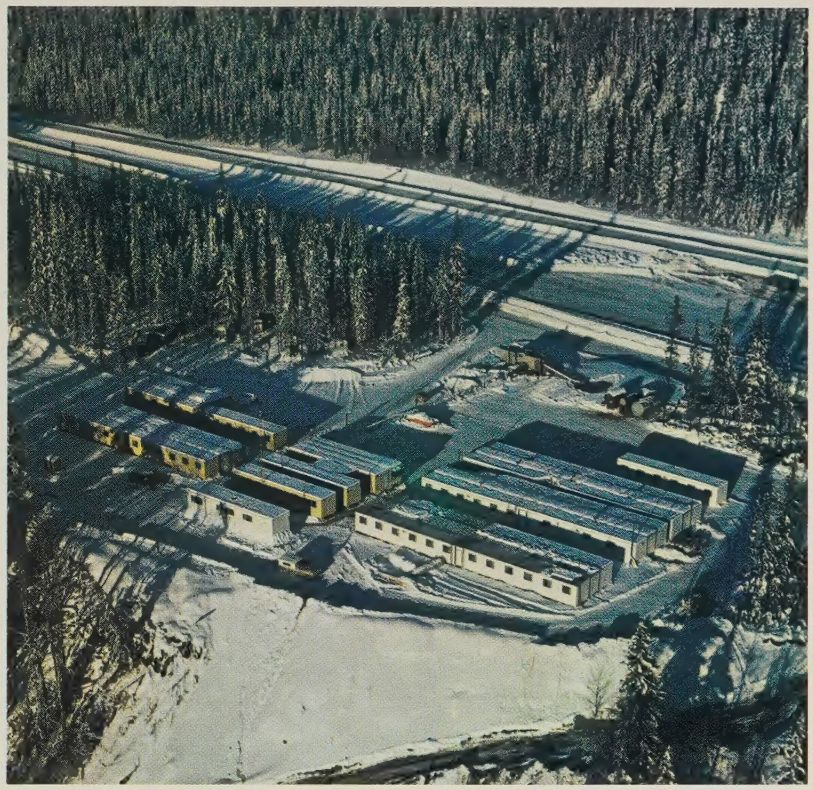
A FIVE YEAR PATTERN OF GROWTH AND DIVERSIFICATION

Originally formed as R. J. Keen Construction, the company later became Keen Industries Limited. Over the past five years it has diversified and expanded to serve the resources industries in construction, transportation, drilling and well servicing.

The company was founded by Robert J. Keen, president of the organization, with headquarters in Fort Nelson. Diversification by acquisition and expansion started in 1969 with registration of the first subsidiary, Keen Drilling Limited.

This was followed in quick succession by the formation of Keen Transport Ltd. and Keen Petroleums Ltd. in 1969. Arctic Air Limited was purchased early in 1970, and in 1971 made the acquisition of Northern Air Service Ltd. with its base in Fort Nelson. Later acquisitions selected to fit into the rapidly developing resource service company were Pine Well Servicing Company Ltd. in 1971; Streeper Bros. Marine Transport, in 1971; and Oilpatch Pipeline Services Inspection Ltd. and DAP Rentals Ltd. in 1972.

The most recent major development was in November, 1972 when Keen Industries Limited became a public company with its shares being sold in both Canada and United States.


The Future

NORTHERN TRANSPORTATION TOP PRIORITY

Massive exploration activity, caused by the continental energy shortage is exploding throughout the arctic and Canadian north with the most spectacular results to date taking place on the Mackenzie Delta and Arctic Islands.

The demand for services created by this intense activity provides tremendous opportunities for Keen Industries. Future developments such as the Mackenzie Highway and the possible construction of oil and gas pipelines to the south are also of great interest and importance to the company.

Many major contracts have been proposed by the federal and provincial governments; for example, the highway between Fort Nelson and Fort Simpson, revisions on the Alaska Highway and the extensions of the railways to serve the Yukon plus railway extensions in B.C. to the shipping ports on the west coast. All of these arteries will open up the resources industry and thus create additional expansion in the area that we serve.

Because of this activity the company is enlarging and expanding its operations particularly in northern transportation. Keen is applying for additional air licenses, is planning to increase its fleet of aircraft, and for the northern waterways is adding to its barge operations with new tugs and barges. Also as conditions warrant, new trucks will be added to the trucking operation.

With the experienced and sound management Keen Industries has in these divisions, they will be in the position to expand to meet the demands as they occur.

Diversified operations serve northern development and industry.

Transport — by air, by water and on land

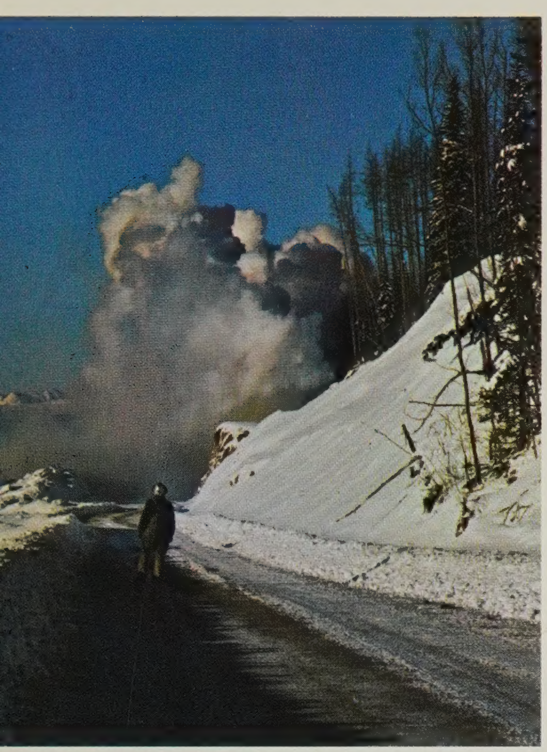
Transportation services in the air, by water and on land, are offered by Keen Industries. These services can be used singly or in conjunction with one another. Together they cover much of the area from 55 degrees north in B.C., Alberta, the Yukon and the Northwest Territories.

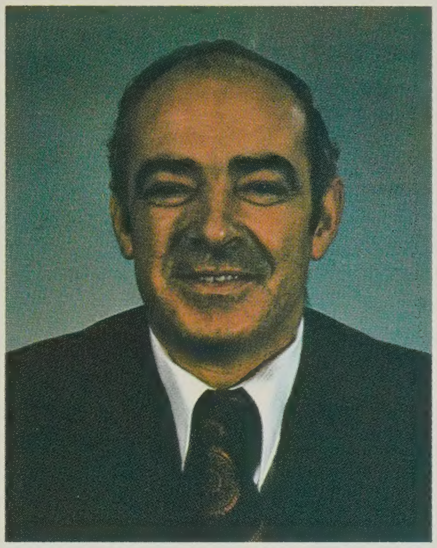
Aircraft are available for charter through a subsidiary, Arctic Air Limited, which operates out of Fort Nelson and Fort Simpson. It also operates a non-scheduled service by DC-3 aircraft connecting Fort Simpson, Fort Liard and Fort Nelson.

Streeper Bros. Marine Transport, the water transport subsidiary, has licenses to transport freight by barge on the rivers for individual customers or by charter tariff.

At present two tugs and related barging equipment services the Nelson, Liard and Mackenzie Rivers with provision being made for the construction of additional barging equipment.

For land transport, Keen Transport has a valid B.C. license for truckload freight from Dawson Creek north to Watson Lake and in areas of the Yukon and Northwest Territories. Sixteen large trucks are available for ground transport in these areas.





ART RYAN
Public Relations Department

Heavy Construction — government and private contracts for railways and roads

Keen Industries and its subsidiary KRM Construction Ltd. are both involved in the heavy construction industry. They are currently working under contract to the British Columbia Railway for railroad bed construction in the northern interior of British Columbia.

When completed, this line will open up an area of the province rich in minerals and forest products. This resource development will guarantee continued work in the area and necessitate additional construction to get products to the railhead.

For this project the company holds British Columbia Railway contracts for an estimated two years with the projected completion date of 1974.

Specialty services for resource industries

Since 1969 Keen Industries has diversified into services, other than construction, for the resources industry. The services now offered include oilfield construction, transportation, gas and oil well drilling, and servicing of oil wells.

A division specializes in pipeline construction and inspection, while another, provides degassers and desilters on a rental basis. The company holds a patent on a new type of flowline degasifying equipment which has proven to be a most efficient method of degasifying drilling fluids.

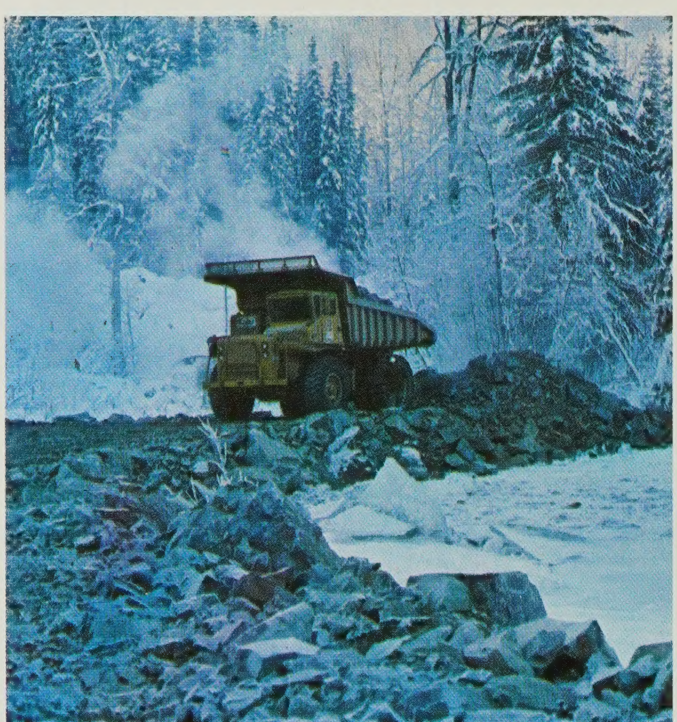
Keen Industries also has trucks marketing aviation fuel at the Fort Nelson airport.

Integration of services makes combined oilfield, drilling and transportation packages an attractive economic proposition.

With the variety of services Keen Industries now offers the resource industry, it is an advantage economically to use them as integrated packages.

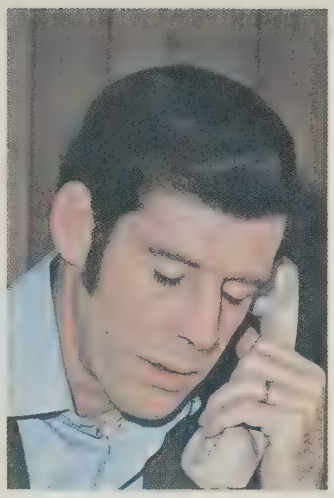
These packages can be tailored to meet a client's needs using one or all, or any combination of these services.

By having a combination of services managed from one initial source by experienced personnel, the logistics of a program can be handled more effectively. This in turn means substantial savings for the client.



Keen Industries Limited

GEORGE BAYER
Vice-President and
Gen. Construction Supt.



DON STAMER
Construction Engineer

Keen Industries is the parent company, with executive offices in Edmonton, Alberta, operating nine affiliated companies which make up a diversified service organization. These companies work with government and resources industries in the development of resources in northern British Columbia, Alberta, the Northwest Territories and the Yukon.

Heavy Construction

The original company has its registered office in Dawson Creek. At present it is involved mostly in railroad bed and heavy construction.

The company currently has $19.6 million in contracts with the British Columbia Railway to construct sections of the grade and railroad bed for the resource railway into the interior of the province. A labour force of over 200 men is involved in building three sections — 69, 84, and 96 miles in length — of the railroad from Fort St. James to Dease Lake.

Some $6 million of heavy equipment is in use on this project.

Oilfield Construction

With headquarters in Fort Nelson, and an office in Fort Simpson, the light construction side of Keen Industries concentrates on oilfield work in northern B.C. and the Northwest Territories. This work includes cutting seismic lines, building roads into drilling locations, building drilling sites and gas plant sites.

Some of the company's equipment is currently on rental for use on the Mackenzie Highway extension between Fort Simpson and Inuvik.

Keen Drilling Limited

ROGER NELSON
Vice-President
Contracts

LLOYD DEASE
Vice-President and
Field Supt.

The first of the diversified companies, Keen Drilling is equipped with six rotary drilling rigs capable of drilling oil and gas wells from 3,500 to 15,000 feet. Since the company's inception in 1969 the rig utilization rate has been considerably higher than the industry level.

Keen Drilling management has had many years experience in oilwell drilling. Work has been carried out for most major oil company's exploration projects in Alberta and B.C. Recently wells have been drilled in the Fort St. John, Fort Nelson, Grande Prairie, Rocky Mountain House and Ram River areas. The company, which has offices in Edmonton and Calgary, recently purchased its sixth drilling rig — a unit 34, capable of completing to a depth of 6,000 feet.

KEEN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

Financial Review

DIRECTORS

Robert J. Keen
David J. Freeze
George P. Bayer
Roderick A. McLennan
Richard E. Boesel, Jr.

OFFICERS

President and
Chief Executive Officer — Robert J. Keen
Chairman of the
Board of Directors — David J. Freeze
Vice-President — George P. Bayer
Vice-President — Hugh B. Bullen
Treasurer — Howard A. Schaufele
Secretary — Donald C. Hetland

REGISTERED OFFICES

Head Office:
6012 - 82 Avenue, Edmonton, Alberta

Branches:
Box 920, Fort Nelson, B.C.
700 - 6th Avenue, S.W., Calgary, Alberta
Box 178, Dawson Creek, B.C.
Box 213, Fort Simpson, N.W.T.

TRANSFER AGENTS AND REGISTRAR

Transfer Agent — First National City Bank, New York, N.Y., U.S.A.
Registrar and Transfer Agent — Guaranty Trust Company, Vancouver, Edmonton, Regina, Winnipeg, Montreal and Toronto.

STOCK EXCHANGES

Toronto Stock Exchange
Montreal Stock Exchange

BANK

The Mercantile Bank of Canada

AUDITORS

Price Waterhouse & Co., Chartered Accountants
900 Royal Bank Bldg.
Edmonton, Alberta

LEGAL

Holtzmann, Wise & Shepard — New York
Ross - McLennan — Edmonton

Auditors' Report

To the Shareholders of Keen Industries Limited:

We have examined the consolidated balance sheet and pro-forma consolidated balance sheet of Keen Industries Limited and subsidiary companies as at October 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds and the pro-forma consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion:

(a) The consolidated balance sheet presents fairly the financial position of the companies as at October 31, 1972;

(b) The pro-forma consolidated balance sheet presents fairly the financial position of the companies as at October 31, 1972 after giving effect to the subsequent event described in Note 2;

(c) The consolidated statements of income and retained earnings and source and application of funds present fairly the results of their operations and the source and application of their funds for the year ended October 31, 1972;

(d) The pro-forma consolidated statement of source and application of funds presents fairly the source and application of their funds for the year ended October 31, 1972, after giving effect to the subsequent event described in Note 2;

all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EDMONTON, Alberta
December 22, 1972

Price Waterhouse & Co.

Chartered Accountants

President's Report

IN THIS, my first report since our company became a public corporation in October, 1972, I wish first of all to welcome our new shareholders.

I appreciate your confidence in our future, and I intend to demonstrate that your confidence was justified by our progress in the past year and will be rewarded by our plans for the future.

During the year ended October 31, 1972, the company had substantial increases in revenue, cash flow and net income after taxes. Those advances are as follows:

	Year End October 31		Percentage
	1972	1971	Increase
Revenues	$14,788,470	$10,766,811	37.3%
Cash flow	3,265,317	2,508,151	30.3%
Net Income after Taxes	1,048,000	833,850	25.7%
Earnings per share	$1.50	$1.21	24.0%

The financial statements for the year ending October 31, 1972 do not reflect the capital acquired by the company in the sale of 300,000 common shares to the public in November. This event represents a major change in our affairs and accordingly we have shown the proceeds received from the sale of those shares on the pro-forma balance sheet which appears with our financial statement.

This increased capitalization has enabled us to retire a substantial amount of high cost financing which enabled us to obtain new financing at rates much more favourable than those the company had obtained in the past.

During the past year, our company expended in excess of $4,000,000 in acquiring additional capital equipment with which to accommodate the increasing demand for our services. I believe that this increased capacity on our part will allow us to generate even greater revenues in the oncoming year.

Our strategic location in Northern Canada allows me to say with assurance that all of the company's divisions — earthmoving and pipeline construction, air, road and water transportation, contract drilling and oilwell servicing — will be heavily engaged in the years to come. Our road building division alone has contracts on hand at more favourable rates than we have ever enjoyed, which assure full employment of our equipment and personnel through 1974. The energy shortage in North America assures that oil and gas exploration throughout the North will continue and indeed increase for a very substantial period of time. The nature of the services your company offers gives it every prospect of playing a prominent role in catering to the companies involved in these activities.

Since October 31, 1972, your Company has:

— Increased its fleet of aircraft by two Piper Aztecs and one Twin Otter.

— Acquired three additional service rigs and a drilling rig.

— Contracted for the construction and delivery of one pusher tug-boat and two barges.

— Increased its complement of heavy construction equipment at a value of $1,100,000.

In addition, your company intends in the immediate future, to further increase its barging capacity and to erect major new corporate Head Office facilities in the city of Edmonton.

I am pleased with the performance of our management team and look forward to the result of their energies and experience in the coming year.

I would like to express my appreciation to all the personnel of the company for their continuing efforts and support, without which I would not be able to present this report of the company's satisfactory progress in the past year and the plans for the future.

R. J. Keen,
President

KEEN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

ASSETS

	October 31		
	(Note 2) Pro-Forma 1972	1972	1971
CURRENT ASSETS:			
Trade accounts receivable	$ 3,992,447	$ 3,992,447	$ 1,768,918
Unbilled revenue (Note 1(b))	1,109,148	1,109,148	288,677
Contract performance deposits	981,016	981,016	595,780
Inventories (Note 8)	826,446	826,446	464,812
Share subscriptions receivable			60,000
Other receivables	112,594	112,594	61,374
Prepaid expenses	247,712	247,712	212,882
Total current assets	7,269,363	7,269,363	3,452,443
FIXED ASSETS, at cost less accumulated depreciation (Notes 1 and 3)	9,858,132	9,858,132	6,963,027
OTHER ASSETS:			
Unamortized finance costs (Note 1(e))	68,132	263,060	301,365
Other, at cost	78,071	78,071	178,450
	146,203	341,131	479,815
	$17,273,698	$17,468,626	$10,895,285

APPROVED BY THE BOARD:

Keen Director

Geo. P. Berger Director

LIABILITIES

	October 31 (Note 2) Pro-Forma 1972	1972	1971
CURRENT LIABILITIES:			
Bank indebtedness	$ 195,614	$ 547,506	$ 383,783
Bank loan, secured (Note 5)	2,050,000	2,400,000	340,000
Trade accounts payable (Note 5)	3,251,178	3,349,184	1,977,944
Accrued liabilities	730,236	730,236	387,254
Due to affiliated companies and shareholder			240,855
Current portion of long-term debt (Note 4)	1,212,864	1,212,864	1,817,548
Deferred income taxes (Note 1(f))	415,083	415,083	
Total current liabilities	7,854,975	8,654,873	5,147,384
LONG-TERM DEBT (Note 4)	1,641,868	3,668,131	2,045,539
SHAREHOLDERS' LOANS			46,798
DEFERRED INCOME TAXES (Note 1(f))	2,187,536	2,187,536	1,748,984
MINORITY INTEREST IN SUBSIDIARIES	10,869	10,869	
SHAREHOLDERS' EQUITY (Notes 2, 6 and 7):			
Share capital —			
Common shares without nominal or par value — Authorized - 2,000,000 shares			
Issued - 700,000 shares (Pro-forma - 1,000,000 shares)	2,691,333	60,100	60,100
Retained earnings	2,887,117	2,887,117	1,846,480
	5,578,450	2,947,217	1,906,580
CONTINGENT LIABILITIES AND COMMITMENTS (Note 9)			
	$17,273,698	$17,468,626	$10,895,285

KEEN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Income and Retained Earnings

	Year Ended October 31 1972	1971
REVENUES:		
Heavy construction (Note 1(b))	$10,701,234	$ 8,277,639
Oil and gas well drilling and servicing (Note 1(b))	2,583,223	1,781,676
Transportation	1,053,773	439,104
Other	450,240	268,392
	14,788,470	10,766,811
EXPENSES:		
Direct—		
Heavy construction	7,035,034	5,429,739
Oil and gas well drilling and servicing	1,981,612	1,323,609
Transportation	733,727	340,357
Other	326,440	255,652
Provision for depreciation (Note 1(c))	961,199	629,965
Amortization of deferred finance costs	291,630	257,824
Interest—		
Long term	181,772	133,012
Short term	209,486	72,725
General and administration	1,055,011	706,183
	12,775,911	9,149,066
Income before income taxes	2,012,559	1,617,745
Provision for income taxes (Note 1(f)):		
Current		(2,617)
Deferred	964,559	786,512
	964,559	783,895
Net income for the year	1,048,000	833,850
Retained earnings, beginning of year	1,846,480	1,012,630
Minority interest in deficit of subsidiary at date of acquisition	(7,363)	
Retained earnings, end of year	$ 2,887,117	$ 1,846,480
Earnings per common share (Note 11)	$1.50	$1.21
Pro-forma earnings per common share (Note 11)	$1.16	

Consolidated Statement of Source and Application of Funds

	Year Ended October 31		
	(Note 2) Pro-Forma 1972	1972	1971
FUNDS PROVIDED:			
From operations—			
Net income for the year	$ 1,048,000	$ 1,048,000	$ 833,850
Add — Expenses not requiring an outlay of working capital —			
Depreciation	961,199	961,199	629,965
Provision for deferred income taxes, less change in current portion	549,476	549,476	786,512
Amortization of deferred finance costs	291,630	291,630	257,824
Other	2,929	2,929	
Funds provided from operations	2,853,234	2,853,234	2,508,151
Common shares issued	2,757,491		60,000
Proceeds on disposal of fixed assets	188,471	188,471	312,328
Rebate of unamortized finance costs	68,670		
Mortgages and finance contracts incurred	3,149,403	3,149,403	2,312,089
Other	102,381	102,381	30,513
	9,119,650	6,293,489	5,223,081
FUNDS APPLIED:			
Purchase of fixed assets	4,044,775	4,044,775	2,704,191
Long-term debt repaid or classified in current liabilities	3,553,074	1,526,811	1,878,631
Finance costs incurred	365,674	365,674	319,046
Repayment of advances from shareholders	46,798	46,798	1,198
	8,010,321	5,984,058	4,903,066
Increase in working capital	1,109,329	309,431	320,015
Working capital deficiency, beginning of year	1,694,941	1,694,941	2,014,956
Working capital deficiency, end of year	$ 585,612	$ 1,385,510	$ 1,694,941

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES:

a) Principles of Consolidation—

The consolidated financial statements include the accounts of the Company and all its subsidiaries consisting of the following:

Name	Percentage Ownership
Arctic Air Ltd.	100%
Northern (Fort Nelson, B.C.) Air Service Co. Ltd.	100%
Keen Transport Ltd.	100%
Keen Petroleum Ltd.	100%
Keen Drilling Ltd.	80%
Pine Well Servicing Company Ltd.	90%
Goodall Industries Ltd.	100%
K-R-M Construction Ltd.	100%
R. J. Keen Construction (1966) Limited	100%
Belanger Holdings Ltd.	100%
D.A.P. Rentals Ltd.	51%
Oilpatch Pipeline Services & Inspection Ltd.	52%
Streeper Bros. Marine Transport Ltd.	100%

During the year, the Company acquired three subsidiaries, which were not significant either individually or in the aggregate. Earnings of subsidiaries have been included in the Consolidated Statement of Income from their respective dates of acquisition.

The excess of cost of the shares of subsidiary companies over the net book value of the related assets at date of acquisition has been classified on the consolidated balance sheet according to the nature of the excess purchase price as follows:

	October 31	
	1972	1971
Fixed Assets—		
Drilling rigs and equipment	$134,175	$134,175
Aircraft	67,559	
Other	53,064	53,064
	254,798	187,239
Other Assets—		
Cost of investment in subsidiaries in excess of book value	29,449	27,731
	$284,247	$214,970

b) Method of Recording Revenues—

The Company recognizes revenues and expenses over the term of each construction and oil drilling contract. Construction contracts are typically unit price contracts and total revenues are finally determined at the completion of the contract based on work actually performed, for example, the number of cubic yards of earth moved. The customer makes monthly progress payments based on its preliminary survey of work completed, and takes a final survey to determine if revenues are due in excess of the progress payments. The Company accrues revenues in excess of progress payments over the term of a construction contract if the customer estimates prior to the final survey that additional revenues will be due. Revenues in excess of these accruals, if any, are taken into income when the final survey is completed.

c) Depreciation—

Fixed assets are depreciated on a straight-line basis over their estimated useful lives after recognition of estimated salvage values (Note 3). Expenditures for renewals and betterments which materially increase the estimated useful life of fixed assets are capitalized; expenditures for repairs and maintenance are charged to income. The cost and accumulated depreciation of fixed assets retired or sold are removed from the asset and related accumulated depreciation accounts, losses and gains thereon which are not material are included in the statement of income as depreciation expense.

d) Equipment Lease Agreements—

The Company has entered into certain equipment lease agreements which are in substance instalment purchases of the assets. Accordingly, leased assets costing $1,136,150 and $1,276,577 as at October 31, 1972 and 1971 respectively are included in fixed assets as construction equipment and aircraft and the related unpaid commitment is included in long-term debt as "finance contracts payable" (Note 4). The leased equipment is being depreciated at appropriate rates as indicated in Note 3 and the lease payments are charged to related finance contracts payable.

e) Unamortized Finance Costs—

Unamortized finance costs consist of the following:

	October 31		
	(Note 2) Pro-Forma **1972**	**1972**	**1971**
Interest charges on finance contracts	$68,132	$136,802	$258,930
Corporate financing costs net of related income tax effect	—	126,258	42,435
	$68,132	$263,060	$301,365

The finance contract charges are being amortized on the sum of the years digits method over the life of the related finance contract; the corporate financing costs will be written off against the proceeds of the public offering of common shares (Note 2).

f) Deferred Income Taxes—

The Company has deducted capital cost allowances (depreciation) for tax purposes in excess of depreciation charged to income; moreover, construction holdbacks receivable and unbilled revenue on railway construction contracts which have been included in income for book purposes are excluded from income for tax purposes until received. Mainly as a result of these provisions the Company and subsidiaries have deferred income taxes otherwise payable to future fiscal years. Such deferrals which relate to construction holdbacks receivable and unbilled revenue are classified on the balance sheet as a current liability.

2. SUBSEQUENT EVENT:

On November 3, 1972, the Company entered into an underwriting agreement under which, on November 17, 1972, the Company issued 300,000 common shares to the public at a price per share equivalent to $10 (Canadian) and issued 10,000 warrants which enable the holder thereof to purchase, at $12.15 (U.S.), one common share per warrant at any time within five years from November 17, 1972. The gross proceeds received, less underwriting commissions, amounted to $2,757,491 and were used as follows:

Underwriting expenses incurred		$ 195,402	
Less — Amounts previously paid	$37,396		
Amount unpaid	60,000	97,396	
Payment of underwriting expenses included in accounts payable			$ 98,006
Payment of long-term debt (Note 4):			
Finance contracts		1,295,087	
Affiliated companies		731,176	
		2,026,263	
Less — Rebate of unamortized finance costs		68,670	1,957,593
Reduction of operating bank loan			350,000
Reduction of bank overdraft			351,892
			$2,757,491

The pro-forma consolidated balance sheet and pro-forma consolidated statement of source and application of funds have been prepared to reflect the pro-forma consolidated financial position of the Company at October 31, 1972 after giving effect to the above described issue of common shares and subsequent use of the resulting proceeds. The gross proceeds from sale, less underwriting commissions, have been credited to share capital in the pro-forma consolidated balance sheet as follows:

Proceeds less underwriting commissions		$2,757,491
Deduct — Underwriting expenses:		
Current	$195,402	
Prior years	42,435	
	237,837	
Less — Reduction in deferred income taxes resulting therefrom	111,579	
Net underwriting expenses (Note 1(e))		126,258
		$2,631,233

3. FIXED ASSETS:

	October 31 1972	October 31 1971	Estimated Useful Life
Land	$ 144,512	$ 83,646	
Buildings	475,082	293,315	10 years
Construction equipment	7,194,590	5,002,325	5-10 years
Drilling rigs and equipment	2,646,409	1,997,623	6-12 years
Aircraft	1,240,917	497,811	10 years
Transport trucks and trailers	469,674	465,178	5 years
Bulk plant and storage tanks	105,487	105,487	10 years
Other	230,687	85,903	3-10 years
	12,507,358	8,531,288	
Less — Accumulated depreciation	2,649,226	1,568,261	
	$ 9,858,132	$6,963,027	

4. LONG-TERM DEBT:

The long-term debt consists of the following:

	October 31 (Note 2) Pro-forma 1972	October 31 1972	October 31 1971
Amounts due to affiliated companies and shareholder— 7% Debenture secured by a first floating charge on all of the assets now existing or hereafter acquired—			
— Western Union Insurance Company and accrued interest	$ —	$ 209,295	$ 197,155
— Shareholder	—	—	206,350
10% Debenture and accrued interest payable to Frank Freeze Ltd., secured by a second floating charge on all of the assets now existing or hereafter acquired	—	358,103	328,883
10% Promissory note and accrued interest payable to Western Union Insurance Company	—	163,778	—
		731,176	732,388
Notes secured by mortgages—			
Payable to the National Supply Company, secured by a fixed charge on drilling rigs and equipment and bearing interest at 1 to 1½% above the prime rate available to the mortgagee through their New York banking facilities payable in monthly principle instalments of $22,403 through 1974	475,192	475,192	626,577
Payable to Farmers & Merchants Trust Co. Ltd., bearing interest at 12% secured by land and buildings, payable in monthly amounts of $3,868 including interest and principal through 1977	151,797	151,797	—
Payable to Western Union Insurance Company, an affiliated Company, bearing interest at 12%, secured by land and buildings, payable in monthly amounts of $2,210 including interest and principal	—	—	94,961
Long-term bank loan (Note 5) bearing interest at 3% above the bank's prime lending rate payable in monthly instalments of $50,000 plus interest	1,500,000	1,500,000	—
11½% First Mortgage Bonds, Series "A" issued by Arctic Air Ltd., a wholly-owned subsidiary, and secured by a first fixed and specific charge on its assets now existing or hereafter acquired, payable in 39 monthly payments of $4,785 through January 15, 1976, and one payment of $75,105 on February 15, 1976. The Bonds are guaranteed by the wholly-owned subsidiary of Arctic Air Ltd. and by the Company	261,720	261,720	—
Finance contracts secured by conditional sales contracts on construction equipment, aircraft and transport trucks and trailers, payable in varying monthly amounts, bearing interest at 12% to 18%, including $571,094 related to leased equipment (Note 1(d))	343,692	1,638,779	2,192,545
Other due through 1975	122,331	122,331	270,216
	2,854,732	4,880,995	3,916,687
Less — Current portion due within one year, except, in 1972, amounts repaid out of proceeds of common share issue (Note 2)—			
Affiliated company and shareholder	—	—	53,600
Other	1,212,864	1,212,864	1,817,548
	1,212,864	1,212,864	1,871,148
	$1,641,868	$3,668,131	$2,045,539

Principal payments of long-term debt are due as follows:

Amounts repaid out of proceeds of common share issue (Note 2)	$2,026,263
Twelve months ending October 31,1973	1,212,864
1974	1,001,054
1975	443,028
1976	165,466
1977	32,320
	$4,880,995

5. CURRENT LIABILITIES:

(a) As security for the bank loan as at October 31, 1972 and in respect of the long-term bank loan of $1,500,000 which has been advanced in connection with the purchase of equipment (Note 4) the Company and subsidiaries have executed a general assignment of book debts in favour of the bank. As additional security for these bank loans the Company has executed a collateral demand debenture of $3,000,000 which provides a first fixed and specific charge on the otherwise unencumbered equipment and a floating charge on all of its assets now existing or hereafter acquired. Additionally, in connection with the banking arrangements of the Company, the Company's subsidiaries have jointly and severally guaranteed such loans.

(b) As at October 31, 1972 a subsidiary issued to a creditor a demand debenture in the amount of $325,000 as collateral security in respect of trade accounts payable to the creditor at any time. The debenture is secured by a first fixed and specific mortgage on the subsidiary's fixed assets and a first floating charge on its assets.

6. SHARE CAPITAL:

(a) At October 31, 1971, the authorized capital of the Company was 10,000 Common Shares of a par value of $1.00 per share of which 108 shares were issued and outstanding. Also at October 31, 1971, the Company had received $59,992 in excess of par value on the issuance of Common Shares and had included that amount in Shareholders' Equity as "Contributed Surplus". On July 20, 1972, the Memorandum of Association was amended to provide for the following changes in the Company's capitalization:

— the authorized capital was changed and increased to 2,000,000 Common Shares without nominal or par value; and

— the issued Common Shares were subdivided into 700,000 Common Shares on the basis of 6,481.48 shares for every issued and outstanding Common Share; and

— the contributed surplus of $59,992 was added to the paid-up capital of the company. This has been treated retroactively in the consolidated financial statements.

(b) On July 17, 1972 the Company adopted an Employee Share Option Plan and accordingly reserved 40,000 common shares. To date no options have been granted.

7. RESTRICTION ON DIVIDENDS:

Pursuant to the terms of the collateral debenture of $3,000,000 executed by the Company in favour of the bank, the Company and its subsidiaries cannot, without the prior written consent of the bank, declare or pay any dividends on any shares of their present or future capital stock during the time the collateral debenture is in effect.

Pursuant to the terms of the 11½% First Mortgage Bonds, Series "A" issued by Arctic Air Ltd., a wholly-owned subsidiary, together with the related guarantee and collateral debenture of Northern (Fort Nelson, B.C.) Air Service Co. Ltd., a wholly-owned subsidiary of Arctic, no dividends can be declared or paid by Arctic Air Ltd. or its subsidiary without the prior written consent of the mortgage bondholder.

8. INVENTORIES:

Inventories are stated at cost (first-in, first-out method) which is not in excess of net realizable value, and consist of the following:

	October 31	
	1972	**1971**
Repair parts and supplies, not for resale	$780,726	$280,949
Petroleum products, for resale	45,720	183,863
	$826,446	$464,812

9. CONTINGENT LIABILITIES AND COMMITMENTS:

(a) As is customary in the industry, the Company, as a contractor, is subject to contingent liabilities with respect to the completion of contracts under performance. In addition railway construction contracts provide for a lien on the equipment used on the contract.

(b) Upon the request of the minority shareholders of the following subsidiaries the Company is committed to purchase, at any time after the dates shown below, their shareholdings at the fair market value thereof at the date of such request.

Keen Drilling Ltd. — June 1, 1974
Pine Well Servicing Company Ltd. — November 1, 1976

In the event that the minority shareholder of Pine Well Servicing Company Ltd. voluntarily terminates his employment before November 1, 1976 the shares held by him must be purchased by the Company for their cost or, in the event of involuntary termination before such date, at the fair market value thereof at that time. Since the determination of the fair market value of these shareholdings as at June 1, 1974 and November 1, 1976 is dependent on future circumstances, no reasonable estimate can be made at this time as to the amount of this commitment.

(c) K-R-M Construction Ltd., a wholly-owned subsidiary, is committed through July 1, 1977 to purchase from certain employees a total of 51,853 Common Shares of the Company on the following basis:

- in the event of voluntary termination of the employee at a price per share equal to the lesser of $1.16 or the book value thereof at termination;
- in the event of involuntary termination of the employee at a price per share equal to the book value thereof at termination.

10. OTHER:

On April 29, 1972 the Company transferred to Mr. Robert Jordan Keen, its principal stockholder, President and Director, a debt of Cry Lake Minerals Ltd. (N.P.L.), a company affiliated with Mr. Keen, due to the Company in the amount of $126,811 and approximately 1,000 acres of farm land together with improvements thereon having a cost to the Company of $111,338 at Fort Nelson in satisfaction of a portion of the Company's indebtedness to Mr. Keen in the amount of $229,014, including a 7% first floating charge Debenture of $206,350 (Note 4). The assets were transferred at the Company's cost which approximated their fair value. The transaction resulted in no gain or loss to the Company.

11. EARNINGS PER COMMON SHARE:

Earnings per Common Share were computed by dividing net income for the year by the weighted average number of Common Shares outstanding during each year (700,000 in 1972 and 691,358 in 1971) after giving retroactive effect to the subdivision of the Common Shares on July 20, 1972 referred to in Note 6(a). There are no outstanding dilutive factors and accordingly no calculation of diluted earnings per Common Share is required.

Pro-forma earnings per common share were computed on the basis that the common shares issued by the Company subsequent to October 31, 1972 (Note 2) were assumed to have been issued on November 1, 1971 and the resulting proceeds had been used as described in Note 2.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration paid to directors and senior officers, including the five highest paid employees of the company, amounted to $108,000 for the year ended October 31, 1972 (Directors — $44,800).

Keen Transport Limited

A. A. BELANGER
Operations Manager

As part of Keen Industries diversification plans, Keen Transport Limited was formed in 1969 after the purchase of two trucking companies in the Fort Nelson area. Although used to some extent for the company's own operations, Keen Transport has licenses for trucking freight, in Northern B.C., Yukon and N.W.T.

Operating out of Fort Nelson and Fort Simpson, the company specializes in hauling construction and oil field equipment and has trucks specially rigged to meet the needs of northern industry and resource exploration.

Included in the present fleet are 16 trucks, as well as low bed and highboy trailers. There are large winch trucks, fuel tank trucks, gravel trucks and smaller trucks for hauling seismic camps, drilling mud, supplies and miscellaneous freight.

Arctic Air Limited

AL LAURIE
General Manager

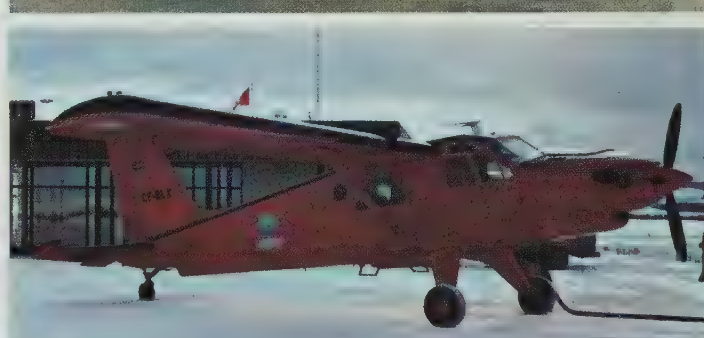
JOHN GOODKEY
Operations Manager

Arctic Air Limited was acquired in 1970 holding a B charter license in Fort Simpson. The company was expanded in 1971 with the purchase of Northern Air Services, which gave the company a B charter license in Fort Nelson. In 1972, it was granted a A charter license by the Department of Transport to operate DC-3 aircraft from a base at Fort Nelson.

Arctic Air now operates an air charter business out of Fort Simpson, N.W.T. and Fort Nelson, B.C. with a fleet of 17 fixed wing aircraft and 26 pilots. Operating under the A license it operates a twice-weekly non-scheduled service covering Fort Simpson, Fort Liard and Fort Nelson. The company has hangars and maintenance facilities at both Fort Simpson and Fort Nelson.

With the current expanding work situation in the north, management feels that there is unlimited potential for available aircraft and has made an application for a Double A license. This would then allow Arctic Air to run regular scheduled flights in conjunction with the charter business. It would also mean purchasing additional aircraft for the company.

Arctic Air has passenger, freight and bush-type aircraft fitted for land, snow or water operations. These include a Twin Otter, Turbo-Beavers and Cessna 185s. Executive aircraft include Beachcraft Baron, Turbo West Wind, and Piper Aztecs.



Pine Well Servicing Company Limited

JAMES PATON
General Manager

DALE PERRY
Field Superintendent

An oilfield service company which was acquired in 1971 with four service rigs, Pine Well Servicing Company Limited, has expanded rapidly to the point where it now has nine service rigs. These are capable of servicing wells of 2,000 to 12,000 feet after drilling is completed.

To date this company has operated primarily in the Slave Lake, Swan Hills and Whitecourt areas of Alberta, but is planning to expand territorially as needs arise.

Management of this company has many years experience in oil well servicing.

Streeper Bros. Marine Transport

Through this company, which was purchased in 1971, Keen Industries acquired tugs, barges, marine equipment and valid licenses to move freight and supplies by bulk or by charter on the Mackenzie, Nelson and Liard rivers.

Management has operated on these rivers for more than 10 years and has built up an enviable record of operating success.

Streeper Bros. has its head office in Fort Nelson, with other offices in Dawson Creek, Fort Simpson and Edmonton.

With two tugs, and a third under construction; four barges with two more under construction, the addition of Streeper Bros. to Keen Industries completes the 'total' transportation concept for the north.

Oilpatch Pipeline Services and Inspection Limited

BOB LAITHWAITE
Vice-President
Contracts

KEITH MacDONALD
Vice-President
Operations Manager

The most recent addition to the company's diversification program was the 1972 acquisition of Oilpatch Pipeline Services and Inspection Limited.

This company, with about $500,000 of contracts, has a long record of experience in pipeline laying and inspection.

Operating primarily in the Grande Prairie and Slave Lake area, Oilpatch Pipeline Services will be expanding its working territory in the future.

D.A.P. Rentals

D. A. PARCELS
Vice-President
General Manager

The acquisition of D.A.P. Rentals, a small rental company specializing in degasser and desilter rentals gave Keen Industries the patent for a new type of degasifying equipment for drilling of oil and gas wells. This equipment removes the gas from the drilling fluid before it leaves the flowline even if a drilling head is used. It can also be hooked into the blow out control manifold, thus saving time and expensive drilling fluids.

Keen Industries is negotiating a world wide distributorship for this equipment.

Keen Industries Limited and Subsidiaries

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OR

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BRANCHES —

270, 700 - 6 AVENUE S.W.
CALGARY, ALBERTA

P.O. BOX 920
FORT NELSON, B.C.

P.O. BOX 213
FORT SIMPSON, N.W.T.

P.O. BOX 178
DAWSON CREEK, B.C.

ARCTIC AIR LTD.

NORTHERN (Fort Nelson, B.C.) AIR SERVICE CO. LTD.

KEEN TRANSPORT LTD.

KEEN PETROLEUM LTD.

KEEN DRILLING LTD.

PINE WELL SERVICING COMPANY LTD.

GOODALL INDUSTRIES LTD.

K-R-M CONSTRUCTION LTD.

R. J. KEEN CONSTRUCTION (1966) LIMITED

BELANGER HOLDINGS LTD.

D.A.P. RENTALS LTD.

OILPATCH PIPELINE SERVICES & INSPECTION LTD.

STREEPER BROS. MARINE TRANSPORT LTD.

Indications for the future

Multi-million-dollar transportation and development requirements in the 600,000 square mile resource area of northern British Columbia, the Yukon and the Northwest Territories are set out in the Northwest Transportation Plan, 1972, made public last December 18 by Federal Transport Minister Jean Marchand.

Mr. Marchand said the purpose of the Transportation Plan was to encourage detailed planning, in consultation with other levels of government and with transportation companies, which would lead to the adoption of optimum air, marine, railway and pipeline facilities at a time and on a scale consistent with the area's needs.

Key recommendations of the plan include:

A reconstruction and paving program on the Alaska Highway between Fort Nelson and Fort St. John.

Development of a forest products facility and bulk facilities at Prince Rupert.

Significant extension of railway in British Columbia and the Yukon.

Publication of this report, and the statement made last October by Mr. R. Binks, Civil Engineering Director for the Federal Department of Public Works that tenders for the 100 million Mackenzie Highway will be called in the early spring of 1973, are indications of expanding opportunities for the multiple operations of Keen Industries in the immediate future.

LEGEND

RAILWAY CONSTRUCTED BY COMPANY

RAILWAY UNDER CONSTRUCTION BY COMPANY

RAILWAY CONSTRUCTION UNDER PROPOSAL

ROADS CONSTRUCTED BY COMPANY

ROADS UNDER CONSTRUCTION BY FEDERAL GOVERNMENT

ROADS UNDER PROPOSAL BY FEDERAL GOVERNMENT

ROAD UPGRADING

EXISTING HIGHWAYS

EXISTING RAILWAYS

COMPANY OFFICE

INUVIK
MACKENZIE
RIVER
GREAT BEAR LAKE
NORMAN WELLS
FORT NORMAN
NORTHWEST TERRITORIES
WRIGLEY
YUKON TERRITORY
FORT SIMPSON
GREAT SLAVE LAKE
LIARD RIVER
WHITEHORSE
ALASKA HIGHWAY
WATSON LAKE
HAY RIVER
FORT LIARD
LOWER POST
CASSIAR
NELSON FORKS
DEASE LAKE
FORT NELSON
STIKINE RIVER
NITEAL CREEK
ALBERTA
BOB QUINN LAKE
BEAVER POND CREEK
ETHEL CREEK
BEATTON RIVER
FORT ST. JOHN
STEWART
BEAR LAKE
DAWSON CREEK
SLAVE LAKE
HAZELTON
TAKLA LANDING
SWAN HILLS
FORT ST. JAMES
WHITECOURT
PRINCE GEORGE
EDMONTON
BRITISH COLUMBIA
PACIFIC OCEAN
CALGARY

Five Year Financial Summary

	Year Ended October 31				
Revenues:	1968	1969	1970	1971	1972
Heavy construction	$1,478,640	$1,791,740	$7,631,471	$8,277,639	$10,701,234
Oil and gas well drilling and servicing		375,511	1,580,957	1,781,676	2,583,223
Transportation		114,688	289,577	439,104	1,053,773
Other		9,351	67,497	268,392	450,240
	1,478,640	2,291,290	9,569,502	10,766,811	14,788,470
Income before income taxes	329,684	59,962	1,303,292	1,617,745	2,012,559
Net income for the year	174,461	20,259	649,443	833,850	1,048,000
Basic earnings per common share	$ .27	$ .03	$1.00	$1.21	$1.50
Working capital generated from operations	$ 472,369	$ 350,067	$2,169,702	$2,508,151	$ 3,265,317

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